

## **Financial Policy**

**Applies to:** W-2 Agencies

**Issue Date:** 11/16/01

**Topic:** Employee Bonuses

**Effective Date:** 11/16/01  
(For payments effective 01/01/02)

**Purpose:** To clarify the Department's policies regarding the allowability of employee bonuses under the W-2 Contract.

This document states the Department's policy for the Department's contracts for the Wisconsin Works (W-2) program on the payment of bonuses to employees. This policy includes the Department's interpretation of the applicable federal guidelines. In addition, this document outlines the procedures a W-2 agency must follow to obtain approval prior to use W-2 funds to issue employee bonuses as a part of a W-2 agency's compensation system.

### **Background:**

Since the beginning of the W-2 Program, the Department's policies have required W-2 agencies to claim reimbursement only for reasonable and necessary expenses for employee compensation. Compensation includes salary or wages, fringe benefits, and bonuses paid to an employee. Bonuses can be a legitimate way to promote exemplary job performance that translates into high quality service for W-2 participants. At the same time, they must be based on achievement and not be exorbitant. A Legislative Audit Bureau report on the W-2 program identified employee bonuses as an area where the amount paid by a W-2 agency appeared to be excessive. The Department is providing the clarifications in this policy to be sure that funds under the W-2 program are used appropriately to deliver services under the W-2 program and to meet all federal and state requirements.

### **Definitions:**

"W-2 agency" means a W-2 agency and any subcontractors of the W-2 agency administering any aspect of the W-2 contract.

"Bonus" means money or something else of value given to an employee in addition to the employee's hourly wage or salary, in recognition of a notable or exceptional accomplishment. Fringe benefits are not considered bonuses. Although a payment may be titled an incentive payment, discretionary compensation, or some other name, any of these payments is considered a bonus for the purpose of this policy.

**Policy:**

Employee bonuses are an allowable cost under the W-2 contract if all of the following are true:

- ❑ The W-2 agency submits the W-2 agency's bonus policy to the Department for approval.
- ❑ The W-2 agency's submission under this policy includes the following:
  - A detailed description of your employee bonus system;
  - An explanation of what behaviors and/or outcomes will be rewarded by an employee bonus;
  - An explanation of how the proposed employee bonus system will impact the agency's performance during the W-2 contract period;
  - An identification of which types of personnel will be eligible for bonuses and the maximum amount of the bonus per type;
  - If the W-2 agency is a county or tribe, submit documentation that demonstrates the W-2 agency's employee compensation including the proposed bonuses is consistent with compensation paid for similar work in other programs administered by the county or tribe; or
  - If the W-2 agency is a non-profit or for-profit organizations, submit documentation that demonstrates the W-2 agency's employee compensation including the proposed bonuses is reasonable for the labor market (i.e., comparable to amounts paid for similar work in that labor market);
- ❑ The W-2 agency has a written policy on the provision of bonuses in effect at the time of the proposed bonuses;
- ❑ The W-2 agency's written policy on bonuses is consistently applied;
- ❑ The Department approves the W-2 agency plan.

**Procedures:**

Prior to the payment of bonuses to employees as a part of their compensation under the W-2 contract, the W-2 agency must submit a copy of the agency's employee bonus policy that responds to the requirements in the policy above to the Department's Contract Manager. This submission should be in the format of a W-2 plan modification.

The Department's Contract Manager will review the W-2 agency's submission and provide a response within ten (10) business days. The Department will determine whether the total compensation is considered reasonable as defined by OMB Circular A-87, number 11.b or OMB Circular A-122, number 7.c. and that all other requirements are met.

Amendments to the employee bonus system or its application must be submitted though the W-2 Plan modification process for prior approval.

A W-2 agency may not submit expenses for employee bonuses until the Department's Contract Manager has approved the W-2 agency's employee bonus policy.

**Questions:** Direct questions to the Department's Contract Manager

**Related Information:**

Office of Management and Budget (OMB) Circulars A-87 and A-122 provide general requirements on the allowability of costs charged to federal funding sources. In addition, OMB Circulars A-87 and A-122 provide specific information on the requirements for employee compensation. OMB Circular A-87 applies to counties and tribes. OMB Circular A-122 applies to non-profit organizations. Although there is no OMB circular that specifically addresses for-profit organizations, by policy the Department is applying the requirements of A-122 to for-profit organizations as well as non-profit organizations. In that way, all W-2 agencies are covered by the specific federal requirements which apply to the federal funding sources used by the Department for the W-2 Contracts.

**Attachments:**

- Excerpt from OMB Circular A-87
- Excerpt from OMB Circular A-122